

State of Indiana

A REPORT TO INDIANA CITIZENS ON THE STATE'S FINANCES

JUNE 30, 2001



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Dear Indiana Citizens:

We are pleased to present the second edition of the "Report to Indiana Citizens on the State's Finances" for the period ending June 30, 2001. Like the first edition, this report is designed to provide an enhanced understanding of the current fiscal condition of Indiana State government.

This issue of the Report focuses on the cash balance numbers for the fiscal year 2001 close of the State's books, as well as the explanation of the gambling revenue stream that exists here in Indiana. The most significant conclusions are:

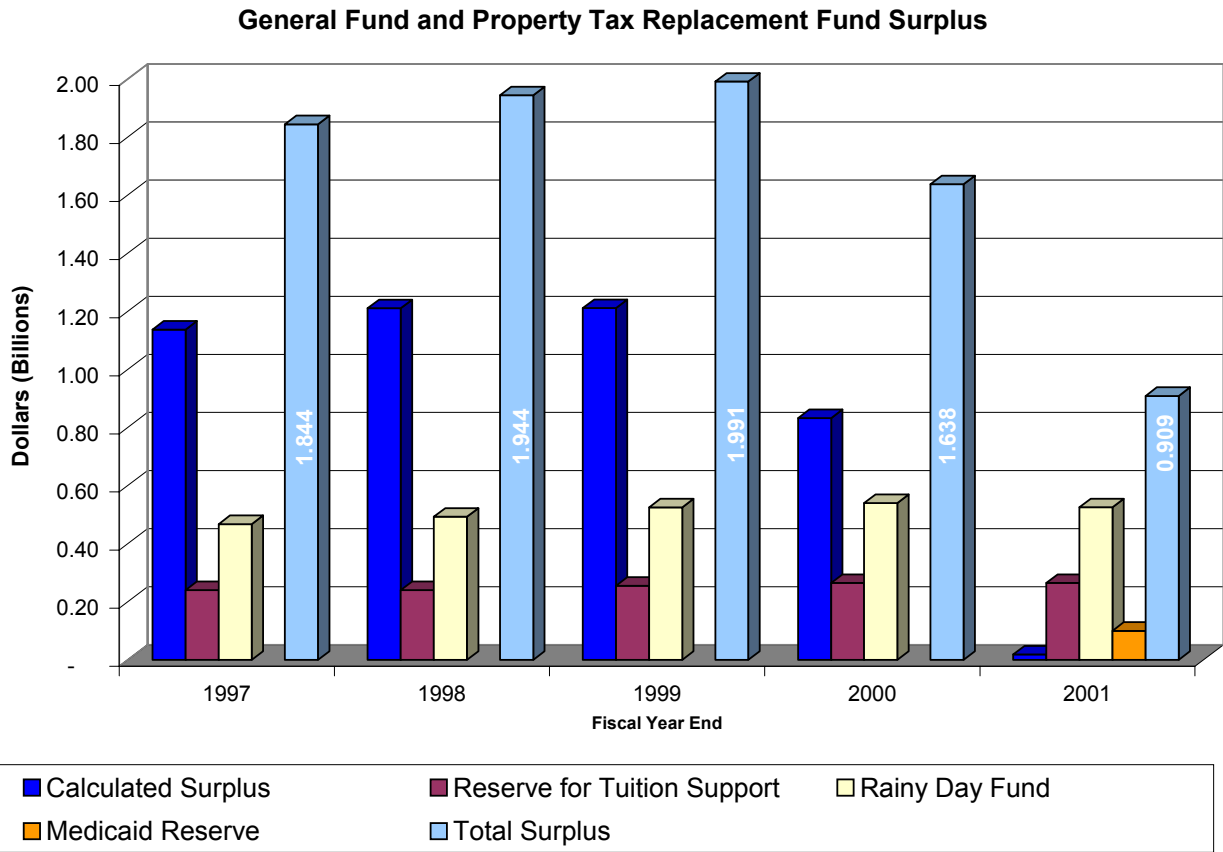
- State government is virtually broke.
- The surplus is dramatically reduced from last year, equaling only half of the previous year's surplus and just a fraction of the \$2 billion surplus we enjoyed in 1999.
- Without the \$101 million in reversions from various state agencies, the state would have a negative cash balance.

As I am out speaking around the State, I am frequently asked to explain the distribution and uses of the State's gambling revenue. The chart in the centerfold of this publication explains the flow of gambling revenue and lists the funds that receive distributions from it. To receive more detailed information about the projects funded through this revenue stream, please click on our website at www.in.gov/auditor/reports/.

If you have questions or comments about this publication, you may email us at comments@audlan.state.in.us or call us at (317) 232-3300.

Sincerely,
Connie Nass
Auditor of State

General Fund and Property Tax Replacement Fund Surplus



For budgetary purposes, Indiana State government’s “General Fund and Property Tax Replacement Fund Surplus” is also referred to as the “General Fund Surplus.”

The General Fund and Property Tax Replacement Fund Surplus is calculated monthly and reported to the State Budget Agency. The surplus may vary from month to month due to the timing of certain appropriation requests and expenditures, and the receipt of revenues. The surplus, which is calculated to be available at June 30th, is used by the State Budget Agency to project available funds for future budgets.

A new item, Medicaid Reserve, was included in the June 30, 2001 surplus calculation. The Medicaid Reserve, which totals \$100 million and is shown in orange on the above chart, was calculated as an independent fund and excluded from prior year surplus calculations. Had the Medicaid Reserve not been included in the June 30, 2001 calculation, the total surplus would have been smaller than the amount shown above.

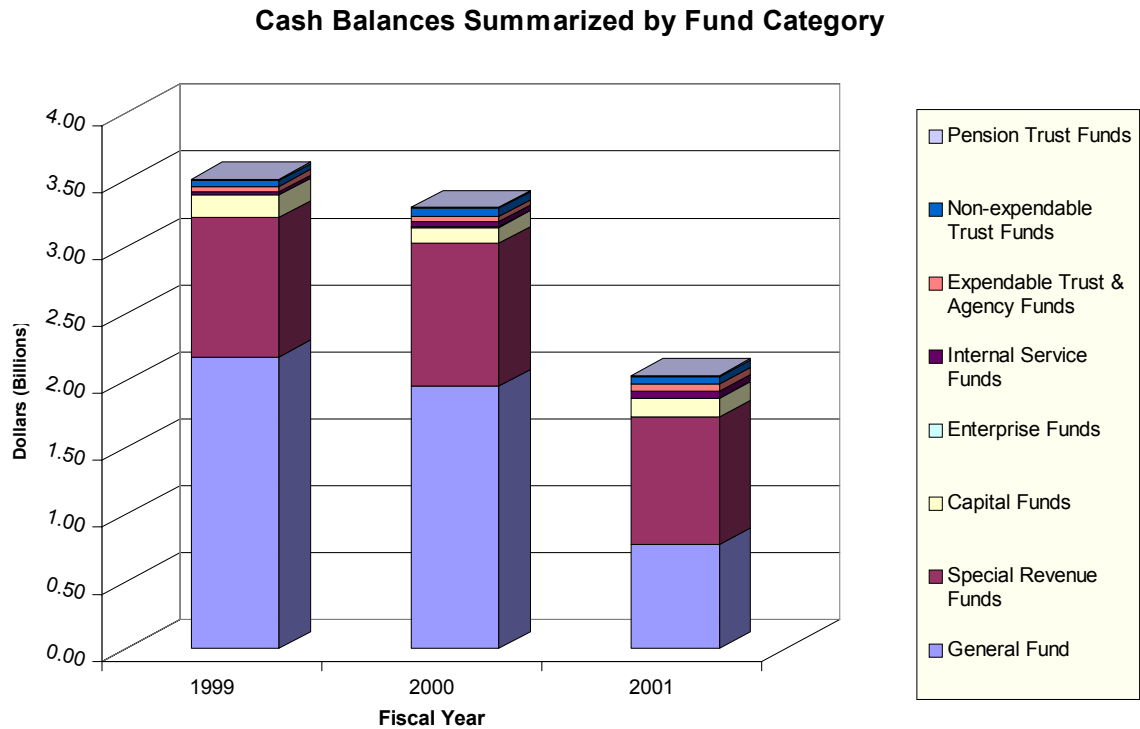
So as to have a true comparison with prior years, the following numbers should be noted which exclude the \$100 million Medicaid Reserve. The total General Fund and Property Tax Replacement Fund Surplus was \$808,742,364 as of June 30, 2001. This surplus is \$828.7 million less than at June 30, 2000 and \$1.182 billion less than at June 30, 1999 which was at the end of the last biennial budget. The June 30, 1999 surplus balance was \$1,990,785,908.

June 30, 2001 Surplus	
General Fund	\$ 18,628,000
Reserve for Tuition Support	265,000,000
Rainy Day Fund	525,114,000
Medicaid Reserve	<u>100,000,000</u>
Total State Surplus	\$908,742,000

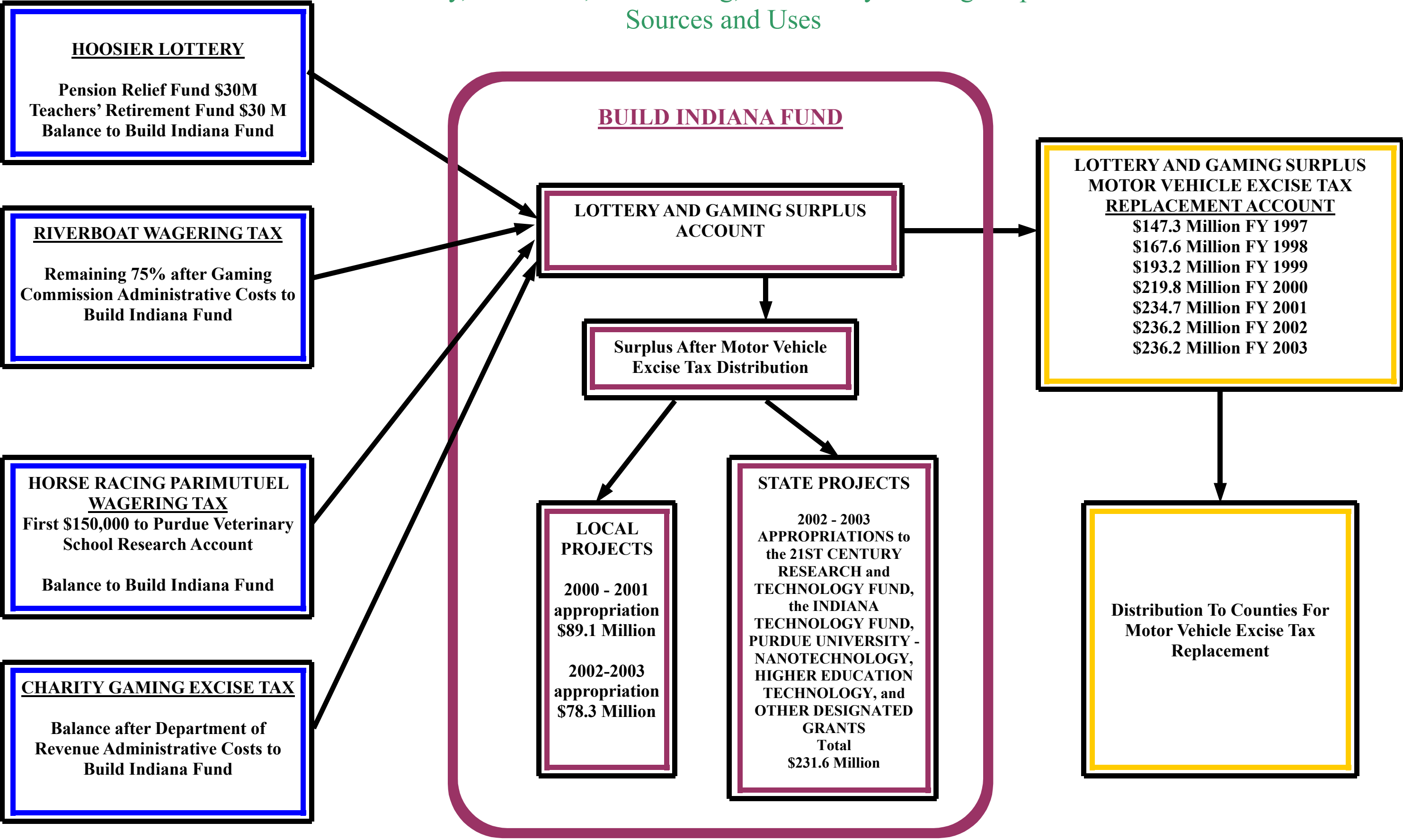
General Fund Reversions - The table shown below lists the amount of money State agencies reverted from their Fiscal Year end June 30, 2001 general fund budget. Reversions refer to unspent money that was appropriated for the agencies’ use by the Indiana General Assembly. Funds that are unspent in the general fund budgets revert to the general fund and are unavailable to the agency. After the end of the fiscal year, reverted funds become part of the general fund surplus which the General Assembly may use to fund future year budgets.

2001 General Fund Reversions	
House of Representatives	\$ 764,412
Legislative Services Agency	1,415,347
Department of Administration	14,357,266
Adjutant General	681,210
Department of Commerce	3,368,305
Family and Social Services Administration	9,307,891
Department of Correction	496,279
Department of Education	834,615
Public Defender	434,181
1999 Bill Contingency Fund	20,940,000
Capital Reversions	2,699,157
Institutional Contingency Fund	2,794,542
Other Contingency Funds	530,078
TANF MOE Contingency Fund	8,000,000
Tobacco Settlement Contingency	28,100,000
Year 2000 Contingency	881,697
All Other Agencies	5,672,896
Total General Fund Reversions	\$ 101,277,877

Cash Balances - The following graph shows the cash balances of all State funds as of the end of each fiscal year for 1999, 2000 and 2001. The June 30, 2001 cash balance was \$2.043 billion, a decrease of \$1.256 billion since June 30, 2000 and a decrease of \$1.468 billion since June 30, 1999 when the balance was \$3.511 billion.



Lottery, Riverboat, Horseracing, and Charity Gaming Surplus
Sources and Uses



Distribution of Lottery and Gaming Surplus Account Funds - Indiana has four forms of gambling: nine riverboats, horse racing at Hoosier Park racetrack in Anderson, charity gaming, and the Hoosier Lottery. Riverboats and the Hoosier Lottery account for 98% of the revenue the State receives from gambling.

The chart on pages 4 and 5 shows how the income flows from the four forms of gambling. After paying certain expenses detailed in the blue boxes, the surplus goes into the Build Indiana Fund from which it is distributed . The income from the lottery is used to supplement funding for teacher and police and firemen pensions with the balance going into the Lottery and Gaming Surplus Account. The major use of riverboat revenues goes to local communities, city and county tourism bureaus, the State Fair Commission, mental health fund, and the Indiana Horse Racing Commission. Horseracing revenues fund operating expenses with about \$150,000 going to the Purdue Veterinary School research and the State Fair Commission and Livestock Industry promotion funds. Charity gaming revenues, after administrative expenses, go into the Lottery and Gaming Surplus Account.

From the money available in the Lottery and Gaming Surplus Account, a portion is transferred to counties to replace motor vehicle excise tax (license plate tax) reductions that have been given to motorists. The replacement tax distributions to counties, which levels are set by the General Assembly, increased each calendar year from 1996 to 2001 at which point the distributions leveled out at \$236.2 million a year. Money left in the Lottery and Gaming Surplus Account after the distributions to the counties is transferred to the State and Local Capital Projects Account which is also part of the Build Indiana Fund.

The Indiana General Assembly through the State budget bill appropriates funds for various projects. A detailed listing of the projects for the 2000-2001 biennium and 2002-2003 biennium is available at the Indiana Auditor of State’s web site at www.in.gov/auditor/reports/.

Distribution of Riverboat Admissions Tax to Local and State Units		Distribution of Riverboat Wagering Tax to Local Units	
Fiscal Year 2001		Fiscal Year 2001	
	Total		Total
Dearborn County	\$ 7,452,246	Evansville	\$ 4,697,355
Dearborn County Convention and Visitor's Bureau	745,218	Gary	11,799,781
East Chicago	5,720,828	Hammond	12,134,289
Evansville	2,121,859	Rising Sun	7,091,650
Gary	6,022,791	Lawrenceburg	17,107,483
Hammond	5,410,049	East Chicago	12,811,241
Harrison County	9,516,044	Michigan City	8,816,168
Harrison County Convention and Visitor's Bureau	475,798	Harrison County	9,640,752
Indiana Horse Racing Commission	25,443,943	Switzerland County	2,632,539
Lake County	17,153,668	Total	\$ 86,731,258
Lake County Convention and Visitor's Bureau	1,715,351		
LaPorte County	3,810,663		
LaPorte County Convention and Visitor's Bureau	381,063		
Lawrenceburg	7,452,246		
Mental Health, Division of	3,914,390		
Michigan City	3,810,663		
Ohio County	2,956,031		
Ohio County Convention and Visitor's Bureau	295,600		
Rising Sun	2,956,031		
State Fair Commission	5,871,643		
Switzerland County	1,783,519		
Switzerland County Convention and Visitor's Bureau	89,175		
Vanderburgh County	2,121,859		
Vanderburgh County Convention and Visitor's Bureau	212,184		
Total	\$ 117,432,860		

A History of State Operating Revenue and Reserve Fund Balances								
Compared to the Operating Revenue Stream								
(Millions of Dollars)								
			Property					Balance
			Tax	Rainy	(1)		(2)	as % of
	General	Tuition	Replacement	Day	Medicaid	Total	Operating	Operating
Fiscal Year	Fund	Reserve	Fund	Fund	Reserve	Balances	Revenue	Revenue
1980	216.7	120.0	295.7			632.4	2,437.9	25.94%
1981	30.0	120.0	172.6			322.6	2,521.8	12.79%
1982	0.3	120.0	34.3			154.6	2,743.7	5.63%
1983	60.4	120.0				180.4	2,823.5	6.39%
1984	102.3	120.0				222.3	3,612.8	6.15%
1985	55.0	120.0		145.1		320.1	3,948.1	8.11%
1986	39.4	120.0		153.8		313.2	4,027.3	7.78%
1987	101.1	120.0		164.5		385.6	4,319.6	8.93%
1988	243.2	120.0		213.8		577.0	4,805.0	12.01%
1989	424.6	135.0		265.4		825.0	5,263.3	15.67%
1990	372.2	144.0		318.0		834.2	5,491.3	15.19%
1991	109.4	155.0		323.0		587.4	5,560.6	10.56%
1992	138.9	165.0		328.6		632.5	5,784.5	10.93%
1993	9.7	180.0		300.6		490.3	6,098.6	8.04%
1994	90.0	190.0		370.3		650.3	6,720.1	9.68%
1995	679.3	200.0		419.3		1,298.6	7,277.0	17.85%
1996	1,024.8	215.0		439.5		1,679.3	7,569.8	22.18%
1997	1,138.2	240.0		466.1		1,844.3	7,937.8	23.23%
1998	1,319.3	240.0		496.1		2,055.4	8,481.9	24.23%
1999	1,211.1	255.0		524.7		1,990.8	8,940.7	22.27%
2000	832.6	265.0		539.9		1,637.5	9,199.9	17.80%
2001	18.6	265.0		526.0	100.0	909.6	9,122.9	9.97%
(1) The Medicaid Reserve was not included in combined balances and reserves prior to Fiscal Year 2001. The reserve was set at \$100 million by the State budget bill.								
(2) Operating revenues are the total of General Fund and Property Tax Replacement Fund revenues including lottery and disproportionate share revenues transferred to the General Fund.								

The table shown above was prepared by the State Budget Agency and presents a history of the General Fund and Property Tax Replacement Fund surplus components compared to State operating revenues for fiscal years 1980 through 2001. The table has been included with this report because it is widely distributed and relied upon by the General Assembly when analyzing historical trends. [Some of the numbers provided in the table above vary slightly from the actual surplus numbers as reported in the official financial report of the State Auditor.](#) For example the *actual* total balance for fiscal year 2001 was \$908.7 million rather than \$909.6 million as shown, as well as for fiscal year 1998 the *actual* total balance was \$1.9448 billion rather than the \$2.0554 billion shown above.

The Medicaid Reserve are funds set aside by the General Assembly to cover the shortfall that could exist for the regular Medicaid appropriations. The General Assembly recognized that the amount appropriated in the State budget for 2002 –2003 would be at least \$100 million short. The Medicaid Reserve is not intended to be available for other purposes.

The percentage shown in the last column is important as it is a reflection of reserves available for future use should the general fund balance decrease. It is also a reflection of the State’s financial health. Prudent financial analysts believe that a 10% balance to operating revenues ratio is optimal. In 2001 had the Medicaid Reserve not been included, the ratio would have been 8.87% instead of the 9.97% listed above.